

RESEARCH



2018
**STREET RETAIL
MARKET REPORT**
Moscow

STREET RETAIL MARKET REPORT MOSCOW

Highlights

- As of 2018, the cumulative area of street retail premises amounted to 585,600 sq m, with the average area per lot standing at 196.5 sq m. The new supply grew by 5,300 sq m over the past year. The vacancy rate on the streets under consideration amounted to 6.5%.
- The vacancy rate for street retail premises has decreased throughout all directions, with the biggest drop by 4.9% recorded for the Garden Ring, where the vacancy rate currently amounts to 11.9% against 16.8% in 2017. Meanwhile, the vacancy on the streets within the Garden Ring declined by 3.8 percentage points to 2.1%.
- The decrease in the average lot area to 196,6 sq m (against 199.4 sq m in 2017) has become one of the trends of 2018.
- Food service places are leading among other tenant profiles, with their share of 40.8%.
- There is a shift of street retail tenants from pricier options towards those available to the mainstream audience.
- Thirteen themed festivals were held in Moscow in 2018, which involved 45 streets of the city.
- A trend of sharing rent spaces started to establish. The most frequent duo is coffee house +pastry shop.
- Gastronomic spaces have been developing rapidly, among them grocery markets with food courts and food hall zones.
- There is a growing demand on the part of small and medium-sized businesses currently occupying the buildings that are subject to renovation, for the premises with similar features.
- The supply of street retail premises is forecast to grow in peripheral districts of Russia's capital and close to new transport hubs.

According to Knight Frank, there are three categories of street retail premises by placement, and namely:

- On pedestrian streets with intense pedestrian flow.
- In central trade corridors with foot and vehicle traffic.
- On main streets.

Further on, this report is overlooking the situation in each of the mentioned submarkets in detail.

Supply of street retail premises, 2018 to 2017

Indicator	2017	2018	Change
Total stock of street retail spaces, sq m	580,300	583,600	0.6%
Average area per lot, sq m	199.4	196.6	-1.4%

Source: Knight Frank Research, 2019

Key market indicators of supply

Key market indicators, units	2017	2018
Central Pedestrian Trade Passages*		
Total stock of street retail premises, sq m	108,900	110,800
Number of street retail premises, unit	480	488
Average area per lot, sq m	226.9	226.6
Central Transport-Pedestrian Trade Passages**		
Total stock of street retail premises, sq m	471,400	472,800
Including:		
Total stock of street retail premises of the Boulevard Ring, sq m	64,100	64,300
Total stock of street retail premises of the Garden Ring, sq m	128,500	129,400
Total stock of street retail premises of other downtown trade streets, sq m	278,800	279,100
Number of street retail premises, units	2,700	2,800
Average area per lot, sq m	171.8	166.5
Trade Passages on the Main Streets***		
Total stock of street retail premises, sq m	252,700	254,700
Number of street retail premises, units	1,630	1,660
Average area per lot, sq m	155.0	153.4

* Based on 14 pedestrian streets or their parts that are most sought-after by retail operators: Arbat, Kuznetskiy Most (partially), Nikolskaya, Rozhdestvenka (partially), Kamergerskiy Lane, Stoleshnikov Lane, Tretyakovskiy Passage and a number of locations within Yakimanka and Zamoskvorechye Districts.

** Based on 47 central trade corridors within the Garden Ring (including the streets of the Garden Ring) that are most popular with retailers.

*** The selection includes 5 main streets (Leninsky Ave, Komsomolsky Ave, Kutuzovskiy Ave, Leningradskiy Ave, Mira Ave)

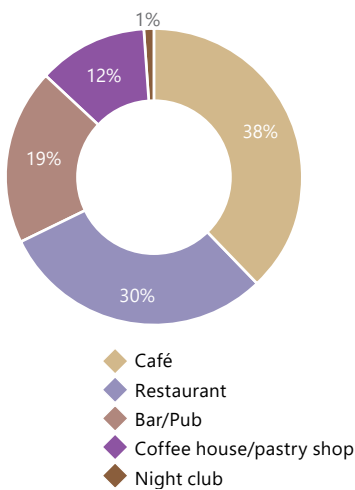
Source: Knight Frank Research, 2019

Supply

As of 2018, the cumulative area of street retail premises amounted to 583,600 sq m, with the average area per lot standing at 196.5 sq m, and the annual growth of new supply reaching 5,300 sq m.

The stock of street retail spaces on downtown streets amounted to 110,800 sq m. The annual growth of new supply was 1,900 sq m. Almost all new supply accounted for one building in Stoleshnikov Lane. The annual growth in new supply of the downtown streets with foot

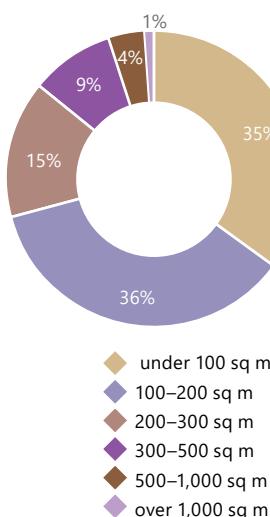
Food service places by type*



*Of total number of places located in the street retail premises within the Garden Ring.

Source: Knight Frank Research, 2019

Tenant structure by area, sq m



Source: Knight Frank Research, 2019

and vehicle traffic as well as in cross-town trade corridors amounted to 1,400 sq m and 2,000 sq m, accordingly.

The new supply is composed of the spaces that didn't use to have a separate entrance from the street or previously had a different type of permitted use according to the law, as well as new-builds, excluding Central Administrative Okrug of Moscow. The new supply in Central Administrative Okrug came from the old properties under renovation, as the Department of Municipal Property has been selling its property to developers for further renovation more willingly over the past couple of years.

It is worth mentioning that as of January 2019, about 1,000 sq m of street retail premises were located in the buildings under renovation (Nikolskaya Street).

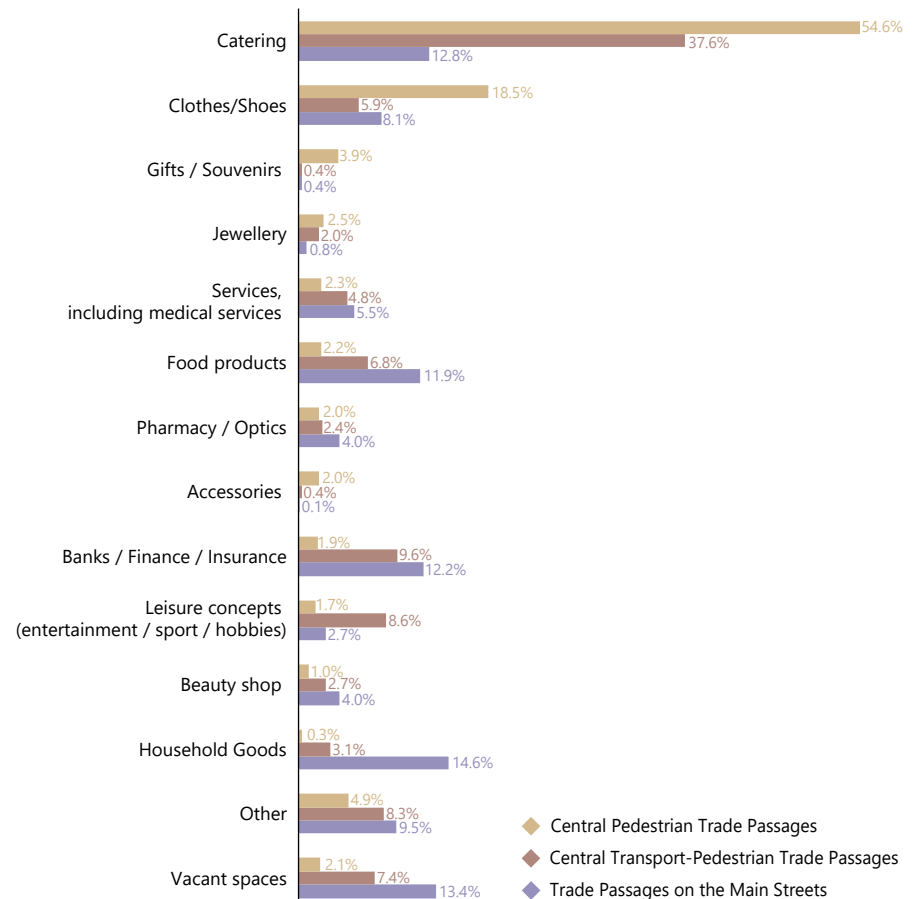
One of the 2018 trends is the decrease in the average area per lot of supply to 196.6 sq m against 199.4 sq m in 2017. This trend is mainly caused by the demand coming from the market, namely the operators who want to be closer to their clients. The smaller format allows the retailer to enter more properties,

while the larger rental space area cuts back the number of available offers. Apart from that it is worth mentioning that the developers aiming at getting faster returns on their investments design new commercial premises so that small-sized units prevail, while the rent rate for them is much higher than that for largescale lots. It is typical for the items located in the city center, in particular.

Food service places are leading among other tenant profiles, with their share amounting to 40.8%. Fashion operators' share is 8.3%, bank offices occupy 8.1% of street retail premises, while the share of service operators amounts to 7.3%, and grocery stores account for 5.9% of all spaces.

The structure of Moscow's main streets is diverse in terms of tenant profiles. Quarter of all supply (20.6%) on Komsomolskiy Avenue and Leninskiy Avenue accounts for the profile of home goods (interior and furniture salons, finishing stores, etc). On Mira Avenue and Leningradskiy Avenue, it is the food service places that take up the largest share of all premises (17% account for restaurants, cafes, coffee houses, fast food places, etc.), while the share of home goods amounts to only 8%.

Demand structure by tenant profile, 2018



Source: Knight Frank Research, 2019

STREET RETAIL MARKET REPORT. MOSCOW

Food service operators are most eager to occupy the spaces located close to pedestrian corridors of the city as well as the corridors with foot and vehicle traffic. They account for the biggest share in the demand structure, namely 54.6% and 37.6% accordingly. It is worth mentioning that the operators of cafes and restaurants prefer Kamergerskiy Lane (85% of all spaces of the street accounts for food service places), Klimentovskiy Lane (75%), Arbat Street (72%), Nikolskaya Street (59%), Bolshaya Dmitrovka Street (52%), and Pyatnitskaya Street (51%). Meanwhile, the share of this tenant profile is significantly lower on main streets, namely 12.8%.

As for the area within the Garden Ring, food service places mainly occupy the premises of not more than 100 sq m (35%) and of 100 through to 200 sq m (36%). A minimal share of restaurants is located in the spaces of over 500 sq m. These are large chain restaurants, or beer houses, or family places, such as Lion's Head Pub at 15 Myasnitskaya Street, Connolly Station Pub at 8 Stoleshnikov Lane, Palazzo Dukale at 3 Tverskoy Boulevard, and others.

Food hall had been developing rapidly as a format over the past year. Right now, as many as 10 projects refer to it already. They are all located on downtown streets. Among them: Food Store on Rozhdestvenka, Food Market 21 and Novoarbatskiy Foodplace on Noviy Arbat, a signature project Gastrocenter in Zaryadye Park, Food Store in Bauman Garden and on Kuznetskiy Most, certain projects on the ground floors of office complexes, such as Gastroferma on Baumanskaya, EatMarket on Timura Frunze, StrEat on Leninskaya Sloboda, and Vokrug Sveta on Nikolskaya Street. This format is also a big success at the squares of renovated food markets of Moscow, namely Danilovskiy, Usachyovskiy, Cheryomushkinskiy, Central Markets on Maroseyka Street, and on Rozhdestvenskiy Boulevard.

The average area of gastro spaces is larger than the format of traditional food service places and amounts to over 800 sq m. More than half food courts offer over 20 various concepts of world cuisines. The leader of such is StrEat, the food hall in Leninskaya Sloboda. Its guests have a chance to try the courses of 38 world cuisines.

Thirteen themed festivals were held in the capital of Russia over 2018. They are: New Year's festivities, Moscow Maslenitsa, Easter Gift, Moscow Spring, Victory Day, Fish Week, Russia Day, Times & Epochs, Flower Jam, City Day, Golden Autumn, Book Festival, and Journey to Christmas. These city events engaged 45 streets, including the most sought-after ones by street retail tenants.

Vacancy changes in street retail, 2018 to 2017

Indicator	2017	2018	Change
Pedestrian streets	5.9%	2.1%	- 3.8 p. p.
Streets with foot and vehicle traffic	7.5%	7.5%	-
The Garden Ring	16.8%	11.9%	-4.9 p. p.
Main streets	16.3%	13.4%	- 2.9 p. p.
Kutuzovskiy Avenue	27.4%	25.5%	-1.9 p. p.

Source: Knight Frank Research, 2019

However, there were streets among them, where the key tenant profile is luxury brands, so the events with affordable souvenirs and street food did not match the class of the featured stores. Such streets are, first of all, Tretyakovskiy Passage, Stoleshnikov Lane, Petrovka Street, Malaya Bronnaya Street, and Bolshaya Dmitrovka Street.

Vacancy

With the program of urban renovation MyStreet coming to an end, most of downtown streets have become more convenient and pleasant for walking, due to which there has been an increase in foot traffic, which in its turn has led to a decline in vacancy rates. As of 2018, the vacancy rates amounted to 6.5; The vacancy of street retail premises fell down throughout all the directions. The drop of 4.9% was reported for the Garden Ring, where the vacancy currently stands at 11.9% against 16.8% in 2017. Meanwhile, the vacancy rate declined by 3.8 percentage points to 2.1% on the streets within the Garden Ring.

The vacancy of street retail spaces located on the five major avenues of Moscow (Leninskiy, Mira, Kutuzovskiy, Komsomolskiy, and Leningradskiy) reached 13.4% of all the trading property in these locations. The vacancy dropped by 2.9 percentage points yoy. The largest vacancy of 25.5% is registered for Kutuzovskiy Avenue out of all main streets under analysis. Due to the renewed parking rules, the preferences of the wealthy shoppers of Kutuzovskiy Avenue shifted towards more convenient shopping places, and namely premium class shopping malls, which in its turn led to the high-end operators starting to flee this trade corridor. The vacancy rate in this location amounted to 25.5% in 2018, having dropped only by 1.9 percentage points yoy. The lowest vacancy was reported for Komsomolskiy Avenue and Leninskiy Avenue (9.1% and 9.6% accordingly).

Currently, the vacancy rate throughout all the street retail premises of the city amounts to more than 37,400 sq m, which generally matches the size of a large shopping mall.

No connection was noted between the decrease in the vacancy rates and the 2018 FIFA World Cup, as mundials are short-term events and they only cause an increase in turnover of such businesses as, primarily, food service, pharmacies, and grocery stores, during the event.

Commercial terms

As of 2018, the highest rent rates were reported for the premises of Stoleshnikov Lane and on such streets as Kuznetskiy Most, Nikolskaya, and Tverskaya (in the section from Okhotniy Ryad metro station to Pushkinskaya metro station).

An 8-18% decline (for various streets) in the upper range of the rent rates was recorded for most key trade corridors of the city.

The bottom range of the rent rates remained flat in 2018 and amounted to 30,000 rub./sq m/year (Mira Avenue and the Garden Ring).

A lowering of the rent rate bottom range was reported for Tverskaya (dropping from 60,000 down to 45,000 rub./sq m/year), Noviy Arbat (from 60,000 down to 40,000 rub./sq m/year), and Myasnitskaya street (from 55,000 down to 45,000 rub./sq m/year). The bottom range of the rent rates went up on Pyatnitskaya street (from 30,000–120,000 rub./sq m/year up to 36,000–130,000 rub./sq m/year).

As for Kuznetskiy Most, the rent corridor was expanded in both directions: the bottom range went down from 70,000 to 65,000 rub./sq m/year and the upper range went up from 200,000 to 220,000 rub./sq m/year.

Because of the high vacancy rate, the upper range of the rent rates on Kutuzovskiy Avenue dropped by 12% to 75,000 rub./sq m/year.

The changes in the upper range of rent rates, 2018 to 2017

Street or Shopping Area	Rent rate (rub./ sq m/year), no VAT included				Annual change, %
	2017		2018		
	min	max	min	max	
Stoleshnikov Lane	85,000	280,000	85,000	250,000	-11
Kuznetskiy Most St	70,000	200,000	65,000	220,000	10
Tverskaya St (the section from Okhotniy Ryad metro station to Pushkinskaya metro station)	60,000	200,000	45,000	170,000	-15
Nikolskaya St	70,000	160,000	70,000	160,000	0
Arbat St	50,000	150,000	50,000	130,000	-13
Patriarshiye Prudy	70,000	130,000	70,000	130,000	0
Pyatnitskaya St	30,000	120,000	36,000	130,000	8
Kamergerskiy Lane	60,000	120,000	60,000	120,000	0
Petrovka St	50,000	120,000	50,000	120,000	0
Mira Ave	30,000	120,000	30,000	120,000	0
Noviy Arbat St	60,000	120,000	40,000	110,000	-8
Myasnitskaya St	55,000	100,000	45,000	100,000	0
Kutuzovskiy Ave	40,000	85,000	40,000	75,000	-12
The Garden Ring	30,000	85,000	30,000	75,000	-12

Source: Knight Frank Research, 2019

Forecast

A growth in supply is expected on Bogoyavlenskiy Lane in the short-term perspective. The foot traffic directed at Zaryadye Park and GUM is going through this location. The buildings that face this trade corridor, but are in need of renovation can potentially become part of fully featured trade infrastructure.

According to Knight Frank, the amount of new supply on Bogoyavlenskiy Lane is forecast to come to about 3,500 sq m, part of which are likely to become street retail premises. The plan that city authorities are implementing in order to create a convenient urban environment for pedestrians and minimize car traffic in locations under renovation will contribute to the further growth of foot traffic. It is expected to grow by up to 10% annually in such neighborhoods. Because of the above, we expect the share of food service operators residing in street retail premises to grow in the near future, while fashion retailers will gradually decrease their presence.

Within the next year or two, food service will gain in the share by 5–7% to its current 40.8%.

The available spaces along main streets will be gradually decreasing and will be taken by the operators who count upon the customers living within the nearest foot distance. Among such operators there are grocery stores, banks, and services.

The new program by Moscow City Government My District that is directed at the improvement of public services in the peripheral dormitory suburbs, which started at the end of 2018, as well as the development of traffic infrastructure (the metro, the Moscow Central Circle, and the Moscow Central Diameter rail lines) resulting in further improvement of public services in the territories around metro stations will become a significant factor affecting the growth in new supply of street retail spaces.

STREET RETAIL

Viktoria Kamlyuk

Head of Street Retail, Knight Frank
viktoryia.kamlyuk@ru.knightfrank.com

RESEARCH

Olga Shirokova

Director, Russia & CIS
Olga.Shiroкова@ru.knightfrank.com

+7 (495) 981 0000



© Knight Frank LLP 2018 – This overview is published for general information only. Although high standards have been used in the preparation of the information, analysis, view and projections presented in this report, no legal responsibility can be accepted by Knight Frank Research or Knight Frank for any loss or damage resultant from the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank in relation to particular properties or projects.

Reproduction of this report in whole or in part is allowed with proper reference to Knight Frank.